

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2017-305-E

IN RE:

Request of South Carolina Office of
Regulatory Staff for Rate Relief to SCE&G
Rates Pursuant to S.C. Code Ann. § 58-27-920

SECOND AFFIDAVIT OF
JIMMY E. ADDISON

Jimmy E. Addison, being duly sworn, deposes and says:

1. I am the Executive Vice President and Chief Financial Officer of SCANA Corporation ("SCANA") and South Carolina Electric & Gas Company ("SCE&G," or collectively with SCANA, the "Company").

2. As such, I have primary responsibility for managing the Company's finances and interacting with the financial community that provides the Company with the capital we invest in SCE&G's electric system to serve customers.

3. As part of my duties with the Company, I am in regular contact with investment bankers, rating agencies, investment analysts, lenders and investors that help us obtain both the long-term and short-term capital needed to operate.

4. The purpose of this affidavit is to provide the Commission with information related to the Request filed in this action by ORS and its likely effect on the financial integrity of the Company.

SCE&G's Ongoing Capital Needs

5. SCE&G's customers look to the Company to provide safe and reliable electric service to their homes and businesses. The reliability and safety of that service is critical to

customers' well-being and to that of this State. Ensuring safe and reliable service is our first obligation as a utility company.

6. Maintaining the required level of service requires the Company to continuously upgrade and renew its utility systems. The Company must replace aging equipment, expand capacity to meet growing demand, extend service to new customers and businesses, encourage new technologies like solar and wind, subsidize energy efficiency programs, and meet emerging threats like cyber security. All of these things require capital to be invested on an ongoing basis.

7. To support its service to customers, SCE&G invests approximately \$500 million per year of investors' capital in its utility operations. This amount is separate from nuclear construction or other extraordinary construction items. It is an investment that SCE&G makes day in and day out and is critical to maintaining the safety, reliability and efficiency of SCE&G's utility service to customers.

8. This level of investment requires SCANA and SCE&G to be active in the capital markets at all times. The Company meets its immediate needs for capital through the issuance of short-term corporate debt, which it does on a day by day basis to obtain the funds it needs to meet capital needs and to pay vendors and suppliers, purchase fuel and commodities, make payroll and otherwise fund its operations.

9. The short term debt that the Company issues is underwritten by major banks through credit facilities that SCE&G and SCANA maintain with them. As long as SCE&G and SCANA comply with the financial and other covenants contained in those credit facilities, the Company can issue short-term financial paper on short notice at reasonable rates. The Company issues this paper on a daily basis to support its cash needs. The availability of these short term credit facilities is key to financing our day to day operations and our cash management.

10. When short term debt reaches an appropriate level, the Company refinances it by issuing long term debt and equity. The long-term debt typically takes the form of SCE&G bonds, and the equity typically takes the form of SCANA common stock.

The ORS Request

11. The Request from ORS seeks an immediate order by the Commission reducing the Company's electric retail revenues by approximately \$445 million annually.

12. I cannot overemphasize how radical and disruptive that Request appears to the investors who provide the capital needed to operate our system.

13. On September 29, 2017, three days after the Request was filed, Fitch Ratings downgraded SCE&G and SCANA issuer ratings to 'BBB-' and 'BB+', respectively. It did so because of "the intense legislative and regulatory scrutiny of the abandoned units 2 and 3 of the V.C. Summer nuclear plant and recent comments by the South Carolina Attorney General that question the constitutionality of the [BLRA]." More specifically, Fitch expressed significant concern with "the sharp deterioration in the legislative and regulatory environment in South Carolina" and the fact that multiple legal battles are expected, "which will lead to a protracted period of uncertainty."

14. Also on September 29, 2017, Standard & Poors announced that it was lowering its ratings for SCE&G and SCANA issuer ratings from 'BBB+' to 'BBB,' and placing the ratings on CreditWatch with negative implications "due to adverse regulatory developments in South Carolina that have weakened the consolidated business risk profile."

15. As a result, SCE&G's issuer ratings are currently one notch above the threshold for investment grade ratings at Moody's and S&P (Baa2 and BBB respectively), and at the investment grade threshold at Fitch (BBB-). A downgrade of one notch at Fitch or two notches at S&P or Moody's would cause SCE&G's issuer rating to fall into speculative

status. SCANA's issuer ratings are at investment grade for Moody's (Baa3), one notch above investment grade for S&P (BBB) and below investment grade for Fitch (BB+).

16. The comments provided by the rating agencies in recent reports make it clear that adverse regulatory developments could cause downgrades of as many as two notches. This would lower ratings at both SCE&G and SCANA to below investment grade, or junk or speculative status.

17. The reaction by the financial analysts that follow SCANA stock was equally negative. On the day after ORS filed its Request, Wolfe Research issued a report stating that it "continue[s] to view [SCANA's] stock as uninvestable until [it] get[s] a better sense of how the political and legal process play out."

18. On September 29, 2017, the Williams Capital Group reduced SCANA's rating from "Hold" to "Sell," in recognition of the fact that "looking beyond the next quarter or two is a dangerous exercise until the political and regulatory actions are completed in South Carolina."

19. Between August 16, 2017, when SCE&G withdrew the Petition in Docket 2017-244-E in response to ORS's request, and October 30, 2017, SCANA's equity has lost approximately \$2.6 billion in value or approximately 29% in absolute terms.

Fair and Reasonable or Just and Reasonable Rates

20. As I understand the statute under which the Request in this docket was filed, that statute requires that the Request be based on a showing that a preliminary investigation was done which showed that the requested rates are "fair and reasonable." S.C. Code § 58-27-920. Another statute, S.C. Code Ann. § 58-27-810, applies to all electric rates in South Carolina, and requires that they be "just and reasonable."

21. As I understand it, fair and reasonable rates and just and reasonable rates are rates that at minimum are “sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.” Fed. Power Comm’n v. Hope Nat. Gas Co., 320 U.S. 591, 603 (1944)

22. I am not aware that any investigation concerning the effect of the requested rates action on SCE&G’s finances has been conducted. Had such an investigation been conducted, it would have shown that the resulting rates would seriously impair SCANA’s and SCE&G’s financial stability and creditworthiness and so cannot be considered to be just and reasonable rates or fair and reasonable rates.

The Effects on SCANA and SCE&G of the Relief Requested

23. The financial stability and creditworthiness of SCE&G and SCANA depend on maintaining a reasonable equity component in their capital structure. The debt to equity ratios for SCANA and SCE&G and financial indicators directly driven by these ratios are a key component of financial metrics rating agencies use to rate the Company’s debt. Maintaining specified debt to equity ratios are also important covenants in the Company’s short term debt facilities.

24. To support its bond rating and financial ratios, SCE&G maintains a debt to equity ratio of approximately 50%/50%. SCANA is slightly more highly leveraged at approximately 42% equity, as of June 2017.

25. The Request seeks disallowance of \$445 million in rates, which represent the recovery of financing costs with respect to \$3.8 billion of SCE&G’s investment in the cancelled nuclear project and in the transmission project that will be placed in service. The amount of rates associated specifically with the nuclear project is \$413 million, which represents the revenue

requirement with respect to the financing costs of \$3.5 billion of investment in the cancelled nuclear project. In addition to this amount, SCE&G has also incurred \$1.3 billion of investment in the cancelled nuclear project, the financing cost recovery of which is not yet included in rates. This total investment in the nuclear project of \$4.8 billion reflects money that investors have provided to SCE&G in the form of bonds, common stock and retained earnings to support a project that this Commission has repeatedly determined to be reasonable and prudent.

26. Under Generally Accepted Accounting Principles (“GAAP”), if the Commission were to disallow SCE&G’s opportunity to earn a return on its \$4.8 billion investment in the nuclear project, SCE&G would be required to recognize an impairment loss on its investment and take a corresponding write-down against common equity.

27. In this case, if the Request was granted, the amount of the write down SCE&G would be required to take would be approximately \$3 billion. This amount is \$1.8 billion less than the gross amount of \$4.8 billion because of the income tax deduction that would result from such a write down.

28. This \$3 billion write down would reduce SCE&G’s equity component to approximately 32% and SCANA’s to approximately 27%. These are not sustainable numbers for the two companies. A write down of this magnitude would not allow SCE&G to function as a financially stable utility and to continue to access the capital needed to support its continued utility operations going forward.

29. An immediate effect of granting the relief requested by ORS could be to cause SCANA to violate certain covenants in its short-term credit facilities related to debt/equity ratios. SCANA would default on those facilities and would immediately lose access to cash to fund its operations. In addition, the debt outstanding under those credit facilities at that time of default

would become due. Replacement funding would need to be found on an emergency basis, and would likely be very expensive, if it could be obtained at all.

30. In such an event, the rating agencies would almost certainly downgrade SCANA's and SCE&G's debt ratings, possibly pushing them both to below investment grade. Debt costs would rise dramatically as a result. SCE&G and SCANA would also be required to post several hundred millions of dollars of cash collateral as required by many of their larger supply contracts if they lose investment grade status at two of the three rating agencies. The contracts in question include certain fuel supply contracts under which SCE&G purchases coal and natural gas for electric generation purposes, and natural gas for distribution to natural gas customers. Utility operating costs would rise.

31. To restore SCE&G's equity ratio to prior levels, SCANA would be required to issue approximately \$3 billion in additional common stock. At October 30, 2017 share prices, SCANA would need to issue approximately 65 million additional shares of common stock to recapitalize its balance sheet. However, SCE&G would have lost approximately \$445 million of the annual revenue that previously supported earnings on the stock that is currently outstanding. There would be no obvious source of earnings to replace the lost \$445 million or to support the value of the additional shares SCANA would need to issue.

32. For these reasons, the rates that would result from granting the relief sought in the Request are not fair, just and reasonable because they would not support the credit and financial integrity of the utility. Those rates would not allow the utility to attract the capital it requires to operate its system and to meet the needs of its customers.

33. The requested rates, if granted, would place SCE&G's ability to serve customers at risk. For that reason, the proposed rates are not fair, just or reasonable as I understand those terms. I can testify to this conclusion with a very high degree of certainty.

Effect of a Rate Order Under Suspension

34. If the Commission were to grant ORS's suspension request, S.C. Code Ann. § 58-27-930 would allow SCE&G to request a hearing and suspend the implementation of the new rates pending that hearing. But it is important to recognize that the suspension of the rate order would not prevent immediate and adverse impacts on the value of the Company or the standing of its credit that would result from its issuance.

35. I have regular interactions with the rating agencies personnel and investment analysts who follow our stock. At this time, they are very sensitive to any actions that can be understood as indicating the direction regulation may be heading with regard to SCE&G.

36. If the Commission were to grant ORS's request and suspend the collection of revised rates, SCE&G would immediately request a hearing under S.C. Code Ann. § 58-27-930 and require that the rate order be suspended while hearings are held as S.C. Code Ann. § 58-27-930 provides. SCE&G would also immediately begin communicating to the investment community that the Commission's action should not be seen as determinative of the final outcome of the matter.

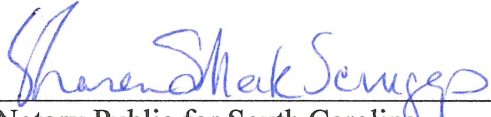
37. However, many members of the investment community would read the Commission's decision as indicating an intention to deny recovery for SCE&G's investment in the nuclear project, and indicating a lack of concern for the financial solvency of the Company and investors' legitimate interests. The fact that these rates would be imposed without a full hearing and review of the facts would exacerbate that conclusion.

38. The result of granting the Request even provisionally would almost certainly be an immediate material loss in SCANA's market equity valuation, and additional deterioration in the Company's credit ratings and borrowing costs. The financial cost to SCE&G and SCANA from such action would be real and substantial. The provisional nature of the Commission's action would not prevent damage to SCE&G's value as a business and perception of its creditworthiness. In my opinion, to a high degree of certainty, SCE&G and SCANA would suffer serious and direct losses of business value and creditworthiness even if the rates when imposed were suspended immediately. Much of this damage could ultimately be irreversible and have a broader impact than just on SCE&G. South Carolina's reputation as state in which capital can be invested with a reasonable assurance of security could be injured.

AFFIANT FURTHER SAYETH NOT.


Jimmy E. Addison

Sworn to and subscribed before me
on this 31st day of October, 2017.


Notary Public for South Carolina

My Commission Expires: 1/20/26